

Association of Bay Area Governments Missing Middle Housing Workgroup

Guidebook: Making Middle Housing Affordable

January 25, 2022

This guidebook was developed to assist jurisdictions in the Association of Bay Area Governments (ABAG) region in evaluating strategies and programmatic options to create affordable middle housing for lower to moderate-income households. It addresses the following topics:

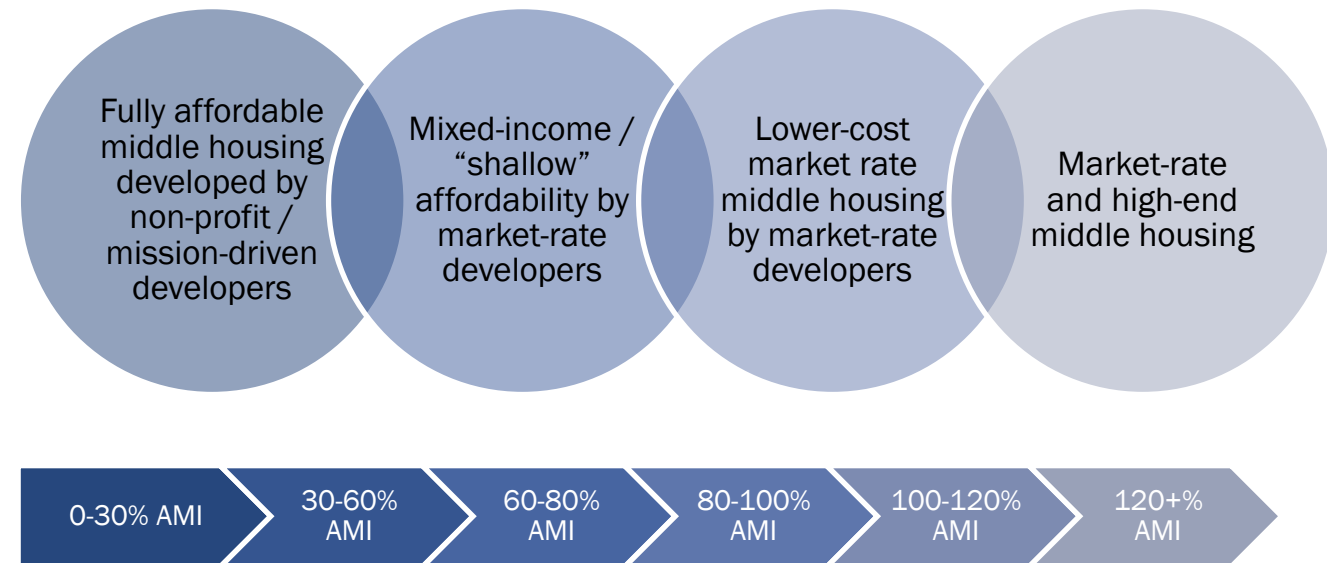
- How does affordable middle housing happen?
 - Examples of affordable middle housing development
- How to encourage affordability?
 - Examples of local programs and incentives
 - What does it take to get to different levels of affordability?

Section 1: How does affordable middle housing happen?

How does affordable middle housing happen?

Meeting the housing needs of households earning less than 60% of AMI nearly always requires public subsidy. Development of income-restricted affordable housing typically relies on funding from the State, region, or County, in addition to any support from the City and other partners. While there are some for-profit developers who build income-restricted affordable housing, most is built by non-profits or public Housing Authorities. However, many of the typical funding sources for income-restricted affordable housing do not work well for middle housing-scale development. Projects tend to be smaller and rely on a patchwork of state, federal, and local funding sources.

Middle housing for households earning between 60% and 80% of AMI often comes in the form of older housing that has depreciated and become more affordable over time. In a market like the Bay Area, new construction generally will not be affordable to households in this income range unless provided as part of an inclusionary zoning requirement or incentive program in a mixed-income development. Some affordable homeownership development also targets this income range (e.g., Habitat for Humanity).



Affordability for market-rate middle housing depends on the housing market. In some areas, most new market-rate middle housing tends to be affordable between 80% and 120% of AMI, but in high-cost markets, only very small new construction middle housing units are likely to be affordable in this income range.

Larger market-rate middle housing in high-cost markets and high-end middle housing with larger units are likely to be affordable only to households earning more than 120% of AMI.

Examples of Middle Housing Development

The following examples illustrate various approaches to affordable middle housing development by both non-profit/mission driven and market-rate developers in the Bay Area and Pacific Northwest.

Non-Profit Development of Rental Middle Housing

Byron Wetmore

- **Location:** Mount Baker, Seattle, WA
- **Type:** affordable rental housing
- **Size:** 12 units
- **Status:** Built in 1992
- **Income range:** 40-50% of AMI
- **Developer:** Community Roots Housing (nonprofit / community-based organization)
- **Public support:** specific sources not listed

Source: <https://communityrootshousing.org/building/byron-wetmore/>



A courtyard provides gathering space. Image credit: Community Roots Housing



Two-story buildings and house-style design. Image credit: Apartmentfinder.com

Non-Profit Development of For-Sale Middle Housing

Amber Drive

- **Location:** San Francisco, CA
- **Type:** Affordable homeownership
- **Size:**
 - 8 units (2BR and 3BR)
 - 6,400 sq ft
- **Status:** Under construction
- **Income Range:** 40-80% of AMI
- **Developer:** Habitat for Humanity (Nonprofit)
- **Subsidy:** land donation (private party), other donations



Eight affordable homes will occupy a site that formerly had a single home on it.

Image credit: Habitat for Humanity Bay Area

Sources:

<https://medium.com/@HabitatGSF/mayor-london-breed-joins-habitat-for-groundbreaking-ceremony-in-san-francisco-9c16ff170169>

<https://habitatgsf.org/homebuilding/>

Nonprofit/Mission-Driven Development of Middle Housing

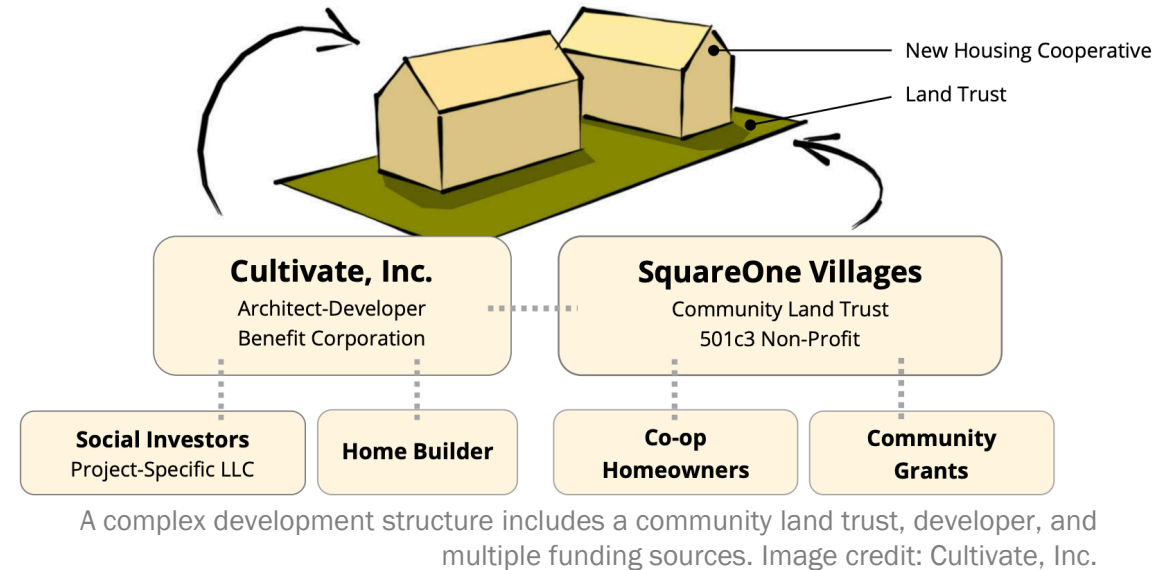
C-Street Co-op

- **Location:** Springfield, Oregon
- **Type:** Limited Equity Co-op with land secured by a Community Land Trust
- **Size:**
 - 2 units (home + ADU)
 - Set up as 6 1-bedroom suites
 - 5400 sf lot (45'x120')
- **Status:** Completed September 2021
- **Income Range:** 60% of AMI
- **Developer:** Cultivate (B-Corp) and Square One Villages (Nonprofit)
- **Public support:** CDBG, grants (~\$20,000 per suite)

Sources:

https://eead3e67-3a27-4098-aa25-9fa572882b1f.filesusr.com/ugd/6e1afc_e9ac72e4a63b4bd9b6ad7c4d07d1998b.pdf
<https://www.squareonevillages.org/c-street>

Development Structure



The project looks like a single-family home from the street.
Image credit: Square One Villages

“Shallow” Affordability by Market-rate Developers

6606 N Greenwich Ave.



The new, three-story, 12-unit building replaced a single-family residence and garage. Image credit: City of Portland permit files.

- **Location:** Portland, OR
- **Type:** Affordable condominium
- **Size:**
 - 12 units (4 1BR, 8 2BR)
 - 3 Stories
 - 0.11 acres
- **Income range:** 80% AMI
- **Developer:** for-profit developer, typically builds high-end single-family and small apartment buildings
- **Public support:** 10-year property tax abatement, impact fee waiver

Sources:

<https://star-news.info/2021/06/16/development-update-applications-permits-demolitions-and-more-5/>
<https://opencorpdata.com/us-or/163325799>
https://www.portlandmaps.com/detail/permit/2020-175729-000-00-CO/4582054_did/

Cully Green Cluster Housing

- **Location:** Portland, OR
- **Type:** Affordable homeownership
- **Size:**
 - 22 units – duplexes and townhomes
 - 800 – 1,500 sq. ft. units
 - 3 affordable CLT units
 - Voluntary IZ
- **Status:** Under construction
- **Income Range:** 80% - 120% AMI
- **Developer:** Orange Splot, LLC
- **Subsidy:** property tax exemption, impact fee waiver, density bonus.



The site plan includes a preserved grove of trees, a common building with shared kitchen and laundry facilities, a guesthouse, community garden, picnic area, and children's play area.

Image credit: Orange Splot, LLC

Mixed-Income Housing by Private Developers

Revere Avenue Renaissance

- **Location:** Bend, Oregon
- **Type:** Mixed-income development
- **Size:**
 - 12 units (6 1BR affordable rental units + 6 market-rate for-sale townhomes)
 - ~ 1/2 acre
- **Status:** Completed 2016
- **Income Range:**
 - Affordable 1BR units: 60% of AMI for ~3 years*
 - Market-rate townhomes: unrestricted, moderate- to high- priced for area
- **Developer:** small, local for-profit developer
- **Public support:** density bonus, City affordable housing fund loan (3 years), impact fee exemption (?)

* The 6 rental units were later sold with the end townhome unit as an investment property, without affordability restrictions.

Sources:

https://www.bendbulletin.com/business/townhomes-being-built-north-of-downtown-bend/article_764190ee-db59-54bb-af3a-0f74ba01dd45.html

https://bend.granicus.com/MetaViewer.php?view_id=9&clip_id=359&meta_id=13633

https://www.zillow.com/homedetails/135-NW-Revere-Ave-Bend-OR-97703/250781754_zpid/



The project includes 6 townhouses and 6 affordable units in their own building located behind the townhouses. Image credit: Coldwell Banker Bain

2019 SE Harold St Fourplex

- **Location:** Portland, OR
- **Type:** Condominium
- **Size:**
 - 4 units (2 2BR, 2 4BR)
 - 6,200 sf lot (50'x124')
- **Status:** Built in 2018
- **Income range:** unregulated, but lower sales prices than any other homes in the neighborhood
- **Developer:** for-profit homebuilder/developer
- **Public support:** None

Sources:

https://www.zillow.com/homedetails/2019-SE-Harold-St-Portland-OR-97202/306504691_zpid/?utm_campaign=iosappmessage&utm_medium=referral&utm_source=xtshare

https://www.zillow.com/homedetails/2019-SE-Harold-St-Portland-OR-97202/2087682349_zpid/

https://www.zillow.com/homedetails/2023-SE-Harold-St-Portland-OR-97202/306504693_zpid/

<https://www.portlandoregon.gov/bds/article/582733>

<http://www.crescentcustomhomesor.com/all-properties/sold-properties/>



The building resembles recent two-unit developments in the area, but has accessory dwelling units with accessibility features rather than garages on the ground level.

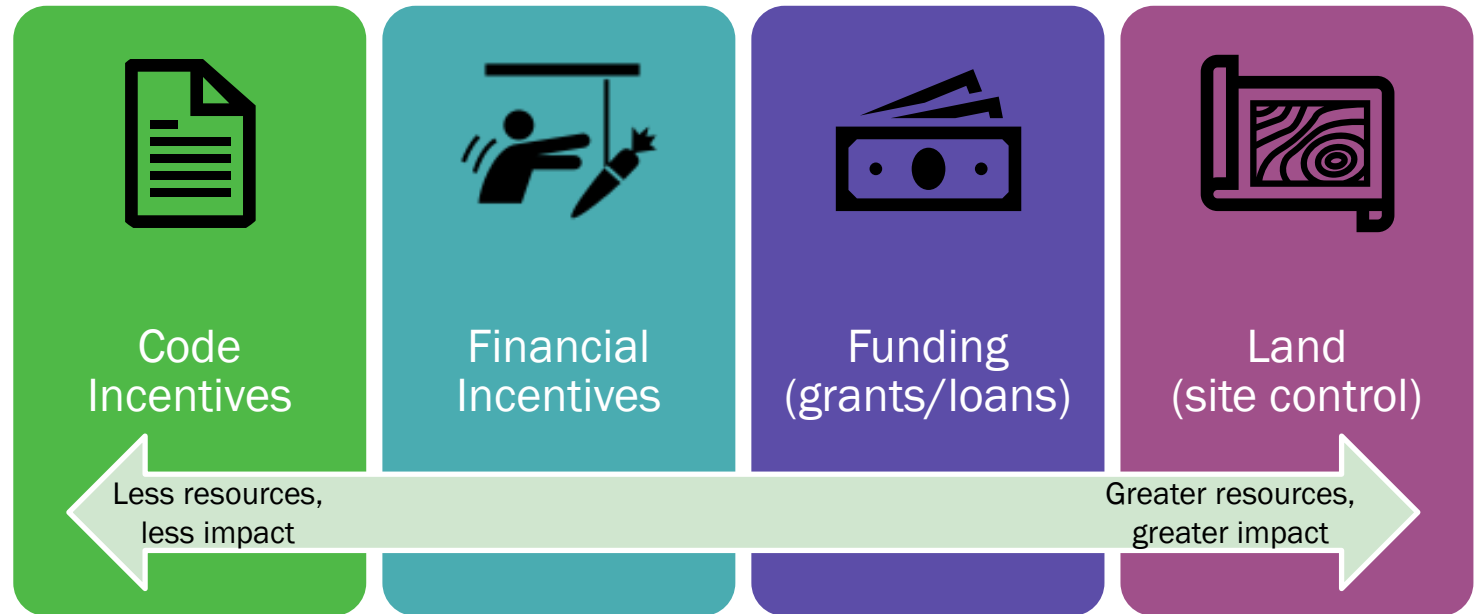
Image credit: Zillow.com

Section 2: How to encourage affordability?

How to encourage affordability?

Governments have a four main levers to encourage affordability that vary in their impact and the public resources required:

- **Code incentives** can increase the amount of development allowed on the site (e.g., through density or height bonuses), reduce costs (e.g., by reducing parking requirements), or expedite/simplify review processes to lower permitting and/or carrying costs.
- **Financial incentives** can include reducing the upfront cost of impact or permitting fees and/or the on-going cost of property taxes.
- **Funding** through grants or loans provides direct financial assistance for affordable or mixed-income projects to close feasibility gaps.
- **Acquisition or disposition of land** can offer both the ability to control an appropriate site so that an affordable housing developer has the opportunity to build on it and, potentially, savings on land costs if the jurisdiction is able to write down land costs.



Code Incentives Overview

Local governments can incorporate incentives in the development code that allow developers to build more housing or offer other regulatory relief in exchange for providing some affordable units. Potential incentives include:

- Density Bonuses
- Reduced Parking Requirements
- FAR Bonuses
- Height bonuses
- Other code flexibility

If these incentives are offered only for housing that offers a defined level of affordability, they can serve as an incentive to include below-market rate units in an otherwise market-rate development, or simply reduce the per-unit subsidy needed for a given affordable housing development.

- **Resources required:** Code incentives have little cost to the jurisdiction aside from staff time to implement the code changes.
- **Potential Impact:** Depending on how restrictive the existing regulations are for development, they can have a negligible to moderate impact, but there are few markets where code incentives alone are enough to successfully induce market-rate developers to voluntarily make units affordable. Generally, for a code incentive to be effective in inducing additional affordable units from market-rate developers, it must make a meaningful difference in development costs or allow enough additional market-rate development to outweigh the lost rents from the below-market units.

Examples include Portland's Residential Infill Program (RIP) and California's Density Bonus Law, which are summarized on the following pages.

Code Incentive Example: Portland Residential Infill Project

The Portland Residential Infill Project allows duplexes, triplexes, and fourplexes in many single-family residential zones throughout the city. It includes several incentives for affordability, including:

- A graduated floor area ratio (FAR) structure incents building more, smaller units by allowing more FAR for development with more units, but not so much more that it allows a developer to build more large units
- There are two levels of bonuses for affordability, which are summarized below.
- The City also offers impact fee waivers and a property tax exemption for qualifying affordable homeownership developments, which complements the code incentives.

FAR Affordability Bonus

1 affordable unit at 80% MFI =
FAR increase of 0.1

Deeper Affordability Bonus

50% of units at 60% MFI =
2 extra units (max 6 total)
FAR up to 1.2
5' height bonus

		Zone								
		R7			R5			R2.5		
# of Units	Allowed Housing Type	Min. lot size	FAR		Min. lot size	FAR		Min. lot size	FAR	
			Base	With bonus		Base	With bonus		Base	With bonus
1	House	4,200 sq ft	.4	n/a	3,000 sq ft	.5	n/a	1,600 sq ft	.7	n/a
2	Duplex <i>or</i> house + ADU		.5	.6		.6	.7		.8	.9
3	Triplex <i>or</i> duplex + ADU <i>or</i> house + 2 ADUs	5,000 sq ft	.6	.7	4,500 sq ft	.7	.8	3,200 sq ft	.9	1.0
4	Fourplex									
Current allowed FAR (based on setbacks, height, building coverage)		1.1 FAR			1.35 FAR			1.75 FAR		

Image credit: City of Portland

Source: https://www.portland.gov/sites/default/files/2019-12/8-pager_recommended_draft_8.5x11_updated_090519.pdf

California Density Bonus Law: Overview

California's Density Bonus Law requires jurisdictions to provide regulatory flexibility in exchange for inclusion of affordable units in a development.

The density bonus works on a sliding scale with various percentages of Very Low, Low, or Moderate-income* units on a given development. Cities are required to provide development incentives or “concessions” that result in cost reductions for the developer (e.g., adjusting setbacks, lot coverage, open space). Parking requirements are capped for eligible projects, which are especially geared towards projects that are adjacent to transit. Projects that are 100% affordable** and are close to transit (defined as being within ½ mile) are allowed greater flexibility, with incentives such as not requiring density limits on a property, no parking minimums, and providing a 3-story height bonus.

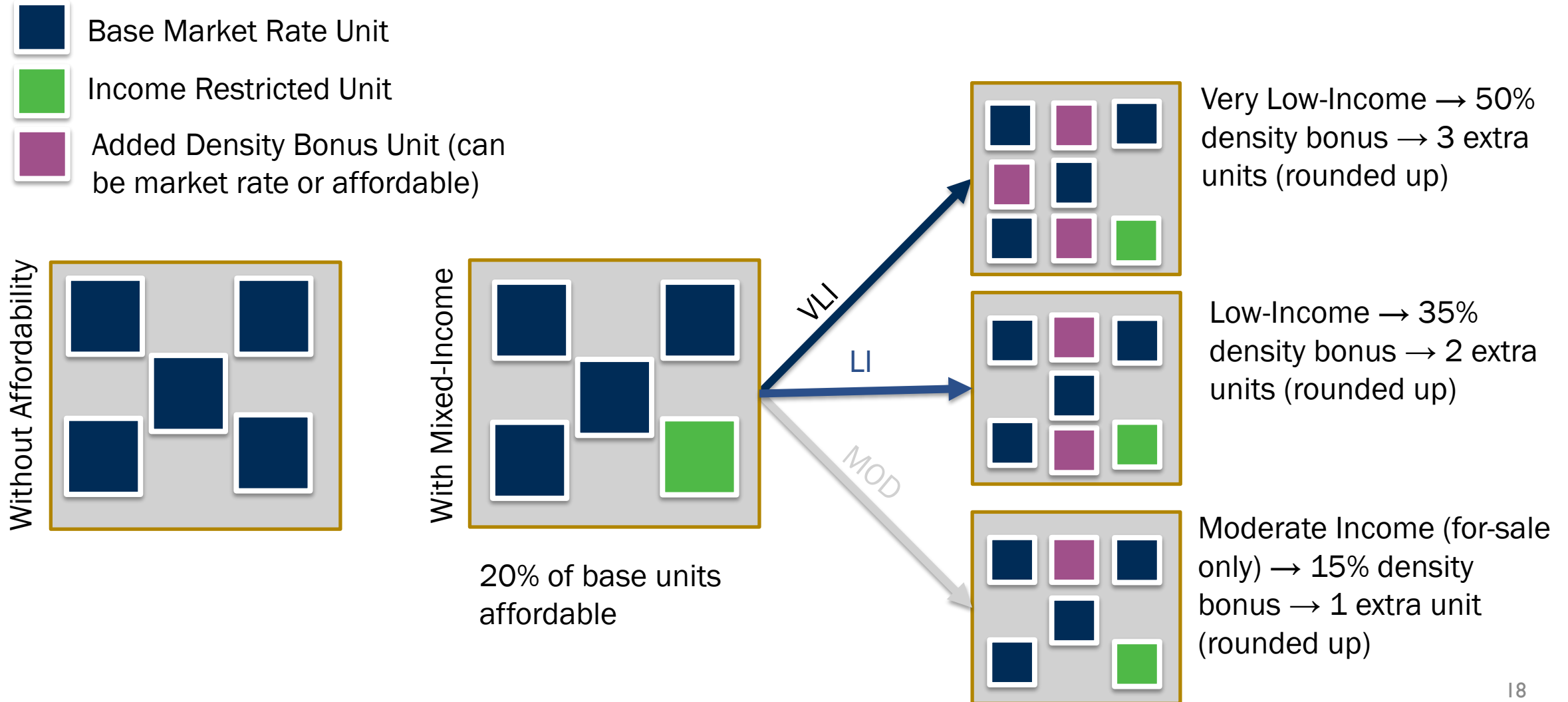
The density bonus law applies to projects with 5+ units and is primarily designed for multifamily developments. However, it could also apply to “upper” middle housing with 5 or more units. Examples of how this could apply to upper middle housing are illustrated in the following pages.

* Moderate income density bonus applies to for sale units, not to rental units




** No more than 20% of the affordable units can be moderate income units

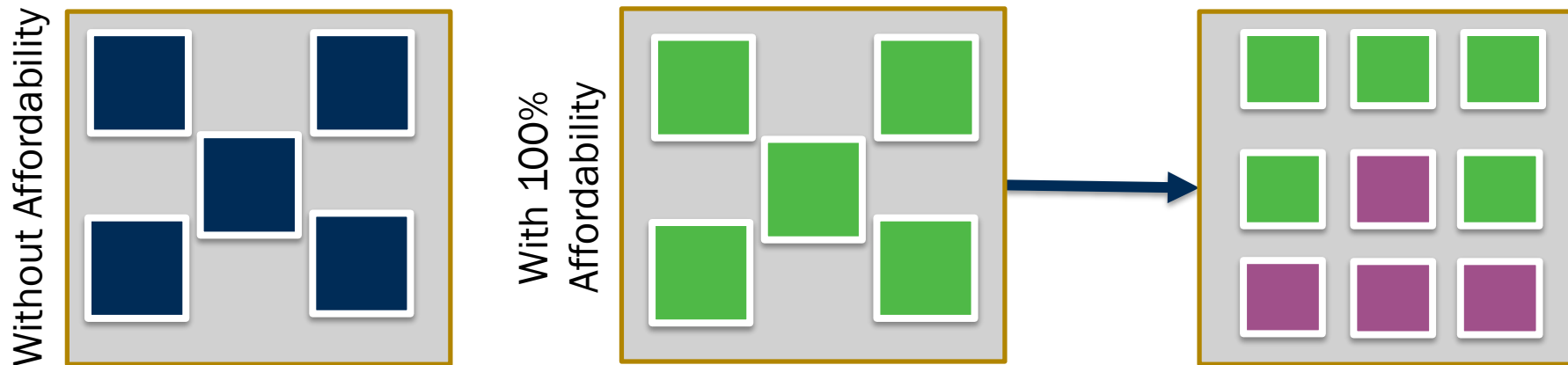
California Density Bonuses: Example 1

Application to Upper Middle Housing



Application to Upper Middle Housing

-  Base Market Rate Unit
-  Income Restricted Unit
-  Added Density Bonus Unit (can be market rate or affordable)

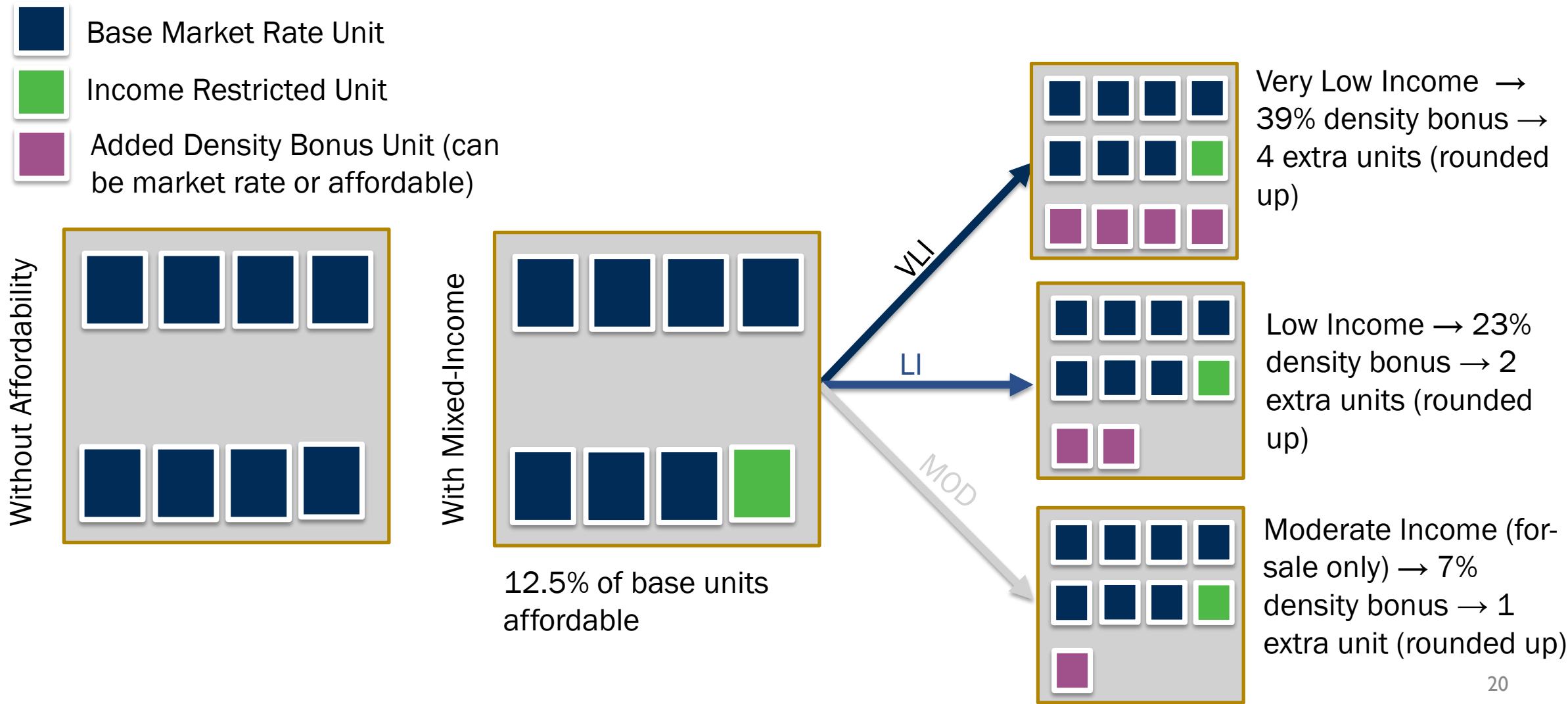


100% of base units affordable* → 80% density bonus




→ 4 extra units

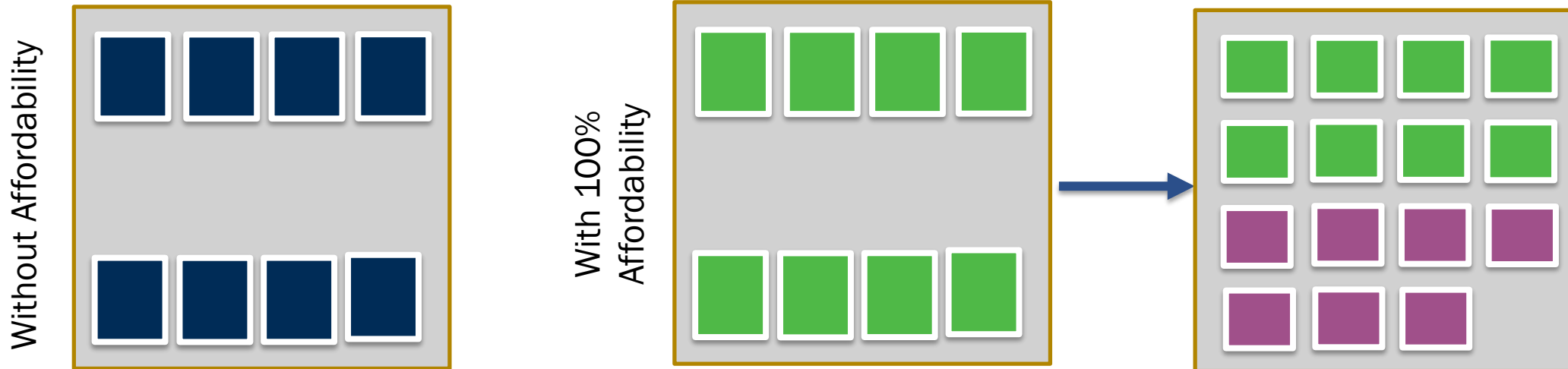
* Very Low, Low, or Moderate Income

Application to Upper Middle Housing



Application to Upper Middle Housing

-  Base Market Rate Unit
-  Income Restricted Unit
-  Added Density Bonus Unit (can be market rate or affordable)



100% of base units affordable* → 80% density bonus
→ 7 extra units (rounded up)

* Very Low, Low, or Moderate Income

Financial Incentives Overview

Beyond land use regulations, there are other ways that local jurisdictions can affect the feasibility of developing affordable or lower-cost housing. Local jurisdictions typically impose fees on development to cover the costs of permit review and to fund the infrastructure needs associated with growth. They often require development to make infrastructure improvements as a condition of development. They also collect property taxes. The ability to impose these fees and taxes also creates the opportunity to waive or reduce them as an incentive in exchange for providing affordable housing units. These incentives can potentially apply to middle housing, among other housing types.

Potential incentives include:

- Impact fee reductions/waivers
- Property tax abatement
- Permitting fee reductions/waivers
- Waiving public improvement requirements

Resources required: Financial incentives often take the form of lost revenue to the jurisdiction rather than a direct capital outlay, but they do have a financial impact on the jurisdiction. The magnitude depends on the amount of the incentive and how broadly applicable it is.

Potential Impact: The level of impact depends on the amount of the incentive, what affordability levels are required to qualify for the incentive, and whether there are additional requirements associated with the incentive that complicate development or financing.

The next pages provide examples of various financial incentives to encourage development of affordable middle housing that may apply to middle housing.

Fresno Development Impact Fee Waivers

The City of Fresno offers multiple impact fee waivers and other cost reductions for specific types of housing development:

Affordable housing development with units affordable at or below 80% of AMI is eligible for impact fee waivers. Impact fees can also be reimbursed for homes purchased through the City's First Time Homebuyer program.

Residential Infill Developments, defined as new multifamily residential projects on sites less than 5 net acres in size and substantially surrounded by urban uses, are eligible for waivers of park, police, fire, and street facilities fees. They are also eligible for up to 50% reimbursement of the cost of curb, gutter, and sidewalk improvements imposed as a Condition for Approval for the project. Small Residential Developments—up to four single family, duplex, triplex or fourplex units that are replacing substantially similar dwellings with the same number of units—are eligible for exemption of development impact fees. However, this functions as an incentive for 1:1 replacement rather than an incentive for middle housing.

Sources:

Resolution No. 2007-324 (<https://documents.fresno.gov/WebLink/0/edoc/404748/Resolution%20-%202007-324%20-%201022007.pdf>)

Fresno Municipal Code Article 4.16 (https://library.municode.com/ca/fresno/codes/code_of_ordinances?nodeId=MUCOFR_CH12IMFEHIREOTMITO_ART4.16FEWAPRCEREINPR)

Fresno Municipal Code Article 4.12 (https://library.municode.com/ca/fresno/codes/code_of_ordinances?nodeId=MUCOFR_CH12IMFEHIREOTMITO_ART4.12EXDEFECESMREDE)

Folsom Impact Fee Deferral & Processing Fee Waiver

The City of Folsom provides two avenues for the deferral or waiver of fees:

The Folsom Impact Fee Deferral & Processing Fee Waiver applies to projects that serve either low or very low-income households. If the project serves Very Low-Income households, then a minimum of 10% of the units are required to be very low-income. Alternatively, if the project serves Low-Income households, then a minimum of 30% of the units are required to be for low-income households.

The processing fees subject to this rule may be waived up to the annual cap, which is \$1 million within a five-year period. Up to 75% of City impact fees may be deferred being interest free for up to 15 months.

Source: <https://www.codepublishing.com/CA/Folsom/#!/Folsom16/Folsom1660.html#16.60>

Portland Homebuyer Limited Tax Exemption (HOLTE)

Portland's Homebuyer Limited Tax Exemption program serves to provide new homebuilders a ten-year property tax exemption on improvement value, which is not to be confused with land-value. The application must be initiated by the builder of the home prior to obtaining building permit.

An eligible homebuyer receives "eligibility criteria" for the construction being a new single-family home, townhome or condominium with at least three bedrooms. Two-bedroom homes may be eligible within transit-oriented areas.

Along with the eligibility criteria for construction, the purchase of the property has other criteria, such as sale requirements and homebuyer income limits. Sale requirements are such that:

There must be a sale price cap that is established annually by the Portland Housing Bureau.

The sale must be an "arm's length transaction" which is one where the buyer and seller act independently and have no relationship (by blood, marriage or unrelated business dealings) to each other.

The property must not be a rental at any point in time within the ten-year period. For a homebuyer to be considered qualified, they 100% Median Family Income (MFI) set for families of 4 (Nonprofits, generally considered to be at 80% MFI)

The qualified homebuyer must pay a processing fee at the time of purchase.

Source: <https://www.portland.gov/phb/holte>

California Property Tax Abatements

The state of California has two primary mechanisms for providing property tax abatements for homeowners.

One is the **Homeowner's Property Tax Exemption**, which provides a \$7,000 reduction in the taxable value of a qualified owner-occupied home. For a home to meet eligible qualifications, it must be an owner-occupied housing unit, regardless of unit type/price, and must also be the primary residence for the owner.

California also has the **Low-Income Housing Property Tax Exemption** which is a full tax exemption that provides up to \$20,000 of taxes if a property utilized Government financing such as Low-Income Housing Tax Credits, among other services. Also, the property must have at least 90% of units be affordable.

Sources:

<https://www.sccassessor.org/index.php/about-us/departments-organization/property-tax-exemptions>

<https://www.co.fresno.ca.us/departments/assessor/property-tax-exemptions/low-income-housing-exemption>

Funding (grants/loans) & Land Overview

Providing direct financial resources and/or land at below-market value are among the most impactful measures a jurisdiction can take to support affordable housing. For middle housing, because there are fewer state and federal funding sources available to close feasibility gaps for affordable housing development at that scale, providing local grants or loans can be especially important. Potential locally-controlled funding sources / mechanisms include:

- CDBG grants
- Housing Trust Funds, etc.
- Revolving Loan Fund / low-interest loans

Public land disposition for little or no cost to affordable housing developers is another way to help close feasibility gaps, particularly in areas with high land costs. Small sites in or near residential areas may be appropriate for affordable middle housing development.

Resources required: Providing direct financial incentives at a level needed to make a meaningful impact on the ability to deliver affordable housing can require substantial local resources and a dedicated, predictable funding source.

Potential Impact: The level of impact depends on the amount of funding available, but can be quite high.

The following pages provide examples of financing through Housing trust funds and loan forgiveness.

Santa Barbara Housing Trust Fund: Revolving Loan Fund

The County of Santa Barbara through partnership with community-minded lenders has provided a great example for the utilization of a revolving housing trust fund for middle housing through the provision of below-market interest rate loans. The trust fund provided a \$750,000 construction loan to Habitat for Humanity of Southern Santa Barbara County for a 12-unit condominium project.

The requirements to apply for funds for the housing trust fund are such that at least 25% of units to 0-120% AMI with priority for greater affordability, also requiring long-term affordability (minimum being 30 years, with 55-to-99-year covenants encouraged).

The funds can be used for site acquisition, predevelopment costs, project construction, bridge financing, permanent financing through a short-term loan with a maximum of up to 36-months. Permanent financing loans to Tax Credit and special needs affordable housing projects may have terms up to 30 or 40 years.



Image credit: Santa Barbara Housing Trust Fund

Sources:

<https://ced.sog.unc.edu/revolving-loan-funds-for-affordable-housing/>

<https://www.sbhousingtrust.org/revolving-loan-fund-for-affordable-housing>

<https://www.sbhousingtrust.org/post/htf-funded-affordable-housing-moves-forward>

https://c99342f9-6496-45b0-88c8-dc172635c61e.filesusr.com/ugd/b47300_fb35af88b2054d29aaace4769cfaf0c3.pdf

Santa Cruz County: ADU Forgivable Loan Program

Santa Cruz County offers forgivable loans up to \$40,000 to homeowners who rent Accessory Dwelling Units (ADUs) to low-income households at affordable rents for up to 20 years. The rent maximums are set at 70% of AMI with eligibility up to 80% of AMI. The loan's interest rate is set to 3% and allows for the payments to be deferred for up to 20 years.

If the ADU has stayed affordable for the full 20 years, then the loan will be forgiven completely. Homeowners can also opt out of deed restriction by repaying the loan (with interest capped at 3%) before the 20-year period expires. The Santa Cruz County Housing Division verifies tenant income eligibility on an annual basis and monitors compliance with affordability requirements.

Source: <http://www.sccoplaning.com/Portals/2/County/adu/ADU%20Loan%20Program%20Summary%202021.pdf>

Section 3: Conclusion

This Guidebook is intended to help planners identify appropriate strategies to support affordable middle housing that are worth further consideration and exploration in their communities. The right strategies will vary depending on the jurisdiction's resources, staff capacity, market conditions, and housing needs. While middle housing tends to offer lower housing costs than single-family detached housing, jurisdictions generally cannot rely on the market alone to deliver middle housing that is affordable to low-income households, and in high-cost markets, even offering affordability for moderate-income households may require public support. Through the strategies identified in this guidebook, jurisdictions may be able to leverage interest in middle housing to deliver greater levels of affordability for middle housing development.